

Contribution to Ad Personam Mandate for Jean-Paul Gauzes

Dear Jean-Paul

Thank you for the invitation to comment on the possible extension of EFRAG's mandate to play a role in the development of European standards on non-financial reporting by companies. As members of Project Task Force (PTF) on Non-Financial Risks and Opportunities and Linkage to the Business Model (RNFRO) we are not in a position to formulate a detailed response but as experts in the area we have set our general observations and comments on the prospect of EFRAG being appointed as a the standard setter:

Governance Structure and Due Process

1.1 The PTF-RNFRO are of the opinion that standards for non-financial information (NFI), incorporating a broad range of Environmental, Social & Governance (ESG) and intangibles-related risks and opportunities including environmental, social, labour and employee matters, human rights, anti-corruption and anti-bribery, as well as community matters and sustainability issues in the supply chain and relevant aspects need to be developed in the interest of a healthy and prosperous people and planet.

We are in agreement that no individual category of stakeholder should exercise undue influence on the standard-setting process, and to this end recommend that to ensure such standards are developed based on an inclusive and transparent due process, the characteristics of such a due process should include:

- (a) The setting out of appropriate minimum qualifications and experience across a relevant and diverse range of disciplines suited to an open call for experts in the development of NFI standards;
- (b) The range of disciplines are recommended to include: environmental science, environmental engineering, ecology, hydrology, climatology, sociology, legal and human rights, financial, and data science and technology experts drawn from the business environment (large to middle cap, small-cap and SME's), academia, non-governmental organisations, standard setting agencies and public bodies with relevant experience;
- (c) Transparency in how applicants are selected for inclusion in the NFI standard setting body;
- (d) Adequate financial and man-power resourcing for the NFI standard-setting body in terms of administrative support, research, access to tools and disbursements; and
- (e) The implementation of due process for the development of standards that is commensurate with that of the IASB in the development of IFRS.

1.2 The PTF-RNFRO agree that relevant European institutions and agencies be invited to be fully involved, consistent with their mandate, in both the harmonization of existing

standards and development of future standards, including the European Securities and Markets Authority (ESMA).

These European Institutions and agencies can be involved in the impactful utilization of existing standards and further development of future standards and in the standard setter by providing observational as well as more interactive roles in the development of the standards.

Examples of particular roles for these institutions and agencies may include:

- (a) the development of technical support guidance providing case scenarios for how the NFI Standards produced by the standard-setting body may be incorporated into the strategic and operational processes of Companies and successfully implemented;
- (b) carrying out a review/impact assessment of the NFI standards and recommending regulatory amendments necessary to ensure the standards are incorporated into Europe's financial framework and regulatory ecosystem in a way that is aligned with Financial Information reporting requirements as well as the recent sustainability-related instruments and amendments;
- (c) being involved throughout the development process and simultaneously create supervisory convergence to ensure unambiguous, consistent and swift enforcement and supervisory across the EU member states.

- 1.3 The PTF-RNFRO supports the input by relevant national public authorities on the development of future NFI standards that are responsive to the public interest. These authorities may be included as observers to the standard-setting body function and may also have an interactive role through the conduct of impact assessments at national level focussing on the civic society, business, environmental and financial sector aspects. Particular challenges at national/member state level should be taken into consideration by the standard-setting body and constructive, planned engagement is recommended. Ideally, there should be no capacity to modify standards at a national level to ensure that like IFRS, any NFI standards are consistent across the EU.
- 1.4 The PTF-RNFRO support the involvement of private sector and civil society representatives in the standard setting work. To achieve a balanced involvement, it is proposed that the expert group selection process include suitably qualified and experienced individuals as outlined in 1.1 above. The private sector stakeholders may represent companies from a range of sectoral operations. Civil society may be represented by NGO's. PTF-RNFRO propose that the standard setting pillar be a public-private partnership, and to this end, follow a similar model to the financial reporting pillar.
- 1.5 PTF-RNFRO support the specific attention in NFI standards to SMEs. This could be done by having SME simplified standards derived from the future EU non-financial reporting standards or creating an NFI standard that is principle-oriented and scalable. Such an NFI standard could be voluntary and/or include reporting exceptions for SMEs to make it accessible for SMEs and limit their administrative burdens One means by which the SME angle may be addressed in the governance and in the standard setting process is through the National public authorities (Item 1.3 above), and the inclusion of SME's in the expert group (Item 1.1 above) .

2. Governance – Cooperation with standard setters and other initiatives

- 2.1 The PTF-RNFRO propose that any future possible EU non-financial reporting standards must be built on existing reporting standards and frameworks to the extent that such standards and frameworks collectively address the full range of sustainability and

intangibles-related aspects and provide specialist knowledge/expertise in key areas such as target-setting, verification and traceability in supply chains. Selected reporting standards and frameworks must fully support standardized/harmonized information and clearly demonstrate that they have been in existence for sufficient time to be driving behavioural change among capital market actors. The building block approach suggested by the “Statement of intent to work together towards comprehensive corporate reporting” released in September 2020 by the IIRC, CDP, CDSB, GRI and SASB could lead the way in this respect.

In order to ensure that the relevant existing standard-setting organisations be closely associated in future standardisation work it is necessary that these organisations are part of the NFI standard-setting process both at a technical and policy levels. This will facilitate co-development of non-financial and financial objectives in standard-setting and help ensure that a broad base of experience and evidence is brought into the NFI standard setting process.

PTF-RNFRO would see the cooperation and involvement being best facilitated through a single NFI and FI standard-setting body, and to this end endorses the proposed appointment of EFRAG for such a role.

The appointed standard-setting body would need to have past experience and adequate resources to facilitate cooperation on an international level with existing public and private initiatives producing international standards and frameworks. The standard-setting body would be tasked with ensuring that any future non-financial reporting standards applying in the EU build to the greatest extent possible on existing international standards and frameworks. In order for the EU non-financial reporting standard setting to have a global impact a comprehensive outreach programme, supported by the set-up of an international platform, or facilitated through an existing platform such as the International Platform on Sustainable Finance (IPSF) are examples supported by the PTF-RNFRO.

- 2.2 PTF-RNFRO recommend that the standard-setting body be responsible for establishing an appropriate coordination between financial reporting and non-financial reporting requirements so as to ensure that Company reporting provides a holistic and integrated view of the performance, position, development and impacts of reporting companies.

Possible changes to finance of EFRAG

3.1 PTF-RNFRO emphasise the importance of adequate financial and human resources to support the standard-setting body necessary to ensure the development of high-quality and globally relevant standards.

PTF-RNFRO suggests that the financing of the non-financial reporting pillar of the standard-setting in its first three to five years reflects higher set-up costs and is commensurate with the need to address complex assessment across member states, at European level and internationally. After the initial set-up phase, the financing may revert to, at minimum, the equivalent resources received by the financial reporting pillar.

PTF-RNFRO propose that the support financing should reflect the public-private relationship of ensuring non-financial standard setting incorporates a broad range of sustainability risks and opportunities including environmental, social, labour and employee matters, human rights, anti-corruption and anti-bribery aspects supportive of a healthy and prosperous people and planet. To this end, private-sector funding from businesses across a range of sectors and

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sized companies should contribute to the necessary financing of the standard-setting pillar throughout its lifetime.

On behalf of the PTF-RNFRO we wish you well in your deliberations with the European Commission on this issue and look forward to seeing how these arrangements unfold.

Yours faithfully,

Dawn Slevin and Mario Abela (Co-chairs PTF-RNFRO)